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SUBJECT: KAZAKHSTANI FOREIGN MINISTER'S TRIP CLEARS CTR LOGJAM

Classified By: Ambassador Richard E. Hoagland: 1.4 (A), (B), (D)

11. (S) SUMMARY: Over the past eight years, implementation of the Cooperative Threat Reduction (CTR) program, also known as the Nunn-Lugar Program, has been grinding along, ever more slowly, as the Kazakhstani bureaucracy matures. In advance of State Secretary-Foreign Minister Kanat Saudabayev's February 2-4 visit to Washington, the Kazakhstani government, under increasing pressure from his office, fully engaged to start BN-350 hot runs and resolve implementation issues, such as value-added tax (VAT) and property tax exemptions. END SUMMARY.

CTR PROBLEMS ARISE

12. (S) The Departments of Defense and Energy currently are implementing several projects under the 1993 CTR Umbrella Agreement in Kazakhstan, which was extended in 2000 and 2007 for seven-year intervals. Since 2005, both the Defense Threat Reduction Agency (DTRA) and DOE have struggled with the inability to receive taxation and customs duty exemptions for contractors and subcontractors working in Kazakhstan. Additionally, property tax issues have kept technical assistance recipients from accepting equipment and facilities, most notably tens of millions of dollars of equipment for the transportation of spent fuel from the Aktau-based BN-350 fast breeder reactor to a facility south of Kurchatov. Additionally, the Ministry of Energy and Mineral Resources, responsible for the BN-350 reactor decommissioning, fell behind its original fuel-shipment schedule due to poor budget planning. (NOTE: Emergency funding from the Ministry of Finance was not made available until it was too late to obligate. If followed, the latest schedule shows the completion of spent-fuel transfers by the end of 2010. END NOTE.)

LONG TRAIN RUNNING

13. (S) In the early evening of January 29, the first "hot" run to pick up spent fuel at Akatu began when the train pulled out of Kurchatov. Although both State Secretary-Foreign Minister Saudabayev and Minister of Energy and Mineral Resources Mynbayev had promised Deputy Secretary of Energy Poneman that the train would be underway before the end of January, the realization of the plan required a herculean effort from very highest levels of the Kazakhstani government. Because the government normally cannot obligate funding

until at least late February, the government faced the option of directing its implementing agent, the National Nuclear Center (NNC), to spend money before it was available, which could carry serious penalties for unauthorized use of funds. Alternatively, it could direct Kazakhstan Temir Zholy (KTZh) -- the Kazakhstan railway authority -- to begin operations without payment.

PRESIDENTIAL BACKING

14. (S) As early as November 2009 when an interagency group, consisting of the Vice Ministers of Energy, Transportation, and Finance and KTZh leadership, were discussing ownership issues and operational financing, Saudabayev began to send representatives to meetings. In December 2009, his envoy clearly articulated Saudabayev's seriousness to the interagency, essentially saying, "Saudabayev says get this done. Figure out how you are going to do it, but get it done before he leaves for Washington. This project has the backing of the president himself."

CTR IMPLEMENTATION -- A TAXING ISSUE!

15. (C/NF) According to the June 2009 amendment to the CTR Umbrella Agreement, the Tax Committee has the authority to establish tax exemption procedures and allow tax exemptions for goods and services acquired in Kazakhstan. Despite the proactive involvement of Daulet Ergozhin, 30-something former Vice Minister of Finance and current Tax Committee Chair (and son of former Academy of Sciences President Edil Ergozhin), mid-level Kazakhstani bureaucrats feared prosecution for granting non-standard tax exemptions and thus refused to implement these provisions. In response to DOE attache's expression of concern that the issue be resolved in advance of Saudabayev's

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Washington trip, Ergozhin called in the head of the regional tax offices and demanded he report "positive results" by Monday, in time to provide Saudabayev with a good new story to tell in Washington.

16. (C/NF) As a result, local tax authorities forwarded requests to Post to provide confirmation of more than a dozen subcontracts for the Biological Threat Reduction program, calling every few hours to press the Embassy DTRA and DOE offices for an immediate response. Under this elegant solution, the Embassy takes responsibility for confirming that the work is in accordance with the agreements. The tax authorities thus can provide a tax exemption without the onus of "proving" that the contracts fall within the framework of CTR, avoiding responsibility and liability.

17. (C/NF) COMMENT: Post fully credits the direct involvement of Saudabayev and his office for the resolution of issues surrounding implementation of the CTR program. As such, Post recommends high-level recognition for these efforts, especially with respect to the start of BN-350 hot runs. Secretary Chu's personal involvement in the trip could provide a great deal of political capital, allowing Post to ride the wave of good will and continue to press for even more tangible results in advance of the Global Nuclear Security Summit, which President Nazarbayev plans to attend. END COMMENT.

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